Your Broadband & Technology Company

Written Remarks of Jimmy Todd, CEO/General Manager of Nex-Tech
FCC Media Bureau
Second Public Workshop on the State of the Video Marketplace
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I am Jimmy Todd, CEO and General Manager of Nex-Tech. Nex-Tech is an organization with its roots being that of a rural telecommunications cooperative. As telecom has evolved over the years, so has our organization grown and changed to become a highly-diversified communications and technology company. Similarly, the focus of communications for our customers which began as landline voice service, local and long distance, now includes high-speed broadband Internet and television services necessary for our rural service area. Nex-Tech has nearly 14,000 television subscribers across a 9,300 square mile service area in northwest and north central Kansas. Our primary television service offering is IP-based via a fiber optic infrastructure, and on an annual basis, we are involved in negotiating programming contracts with the goal of keeping costs reasonable for our customers. Sadly enough, each year, we continue to see ever-increasing rates for content, and there are additional requirements that lead to hidden costs over the term of these contracts.

Many of the content providers require the service provider to take a bundle of channels within the portfolio. While some may argue that this adds diversity for the viewer, I would argue that it increases costs and in some ways actually limits diversity for the viewer. Bundled rates continue to rise and in order to have the more popular content, a multichannel video programming distributor (MVPD) is forced to take less desirable content, which also has a cost. The chief obstacle that content bundling presents in providing the service and to our end user is cost. Many contracts require that the bundled channels be included in the most widely-viewed service package. So intuitively, the cost for the most widely-viewed channel line-up package continues to rise both in number of channels and in cost for the package. Ultimately, this results in ever-increasing costs to the overall price for television service and makes it more challenging for a small provider to add independent networks or to offer smaller channel line-up packages. If there was an option to unbundle without paying a premium, it could allow the MVPD an opportunity to add more diverse independent programming options for its customer base.

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With a fiber-to-the-home network, we don't have any significant capacity constraints in the distribution network beyond the head-end equipment needed to process the signal and transition the content to light that traverses the glass fibers in our network infrastructure. As expected, the head-end equipment necessary for adding channels also has a cost. Our goal is to provide excellent service at a reasonable cost, but in many ways, we are unable to impact the costs that our customers must bear for television service. One of the few ways we can control costs is to not add optional channels to the line-up. Most of our customers would like to have more a la carte options or at least the ability to choose smaller packages that align with their interests. We believe that if the FCC truly had the best interests of the consumer in mind, it would see that market dynamics left unregulated in this arena have not met this goal. Our customer base has a median household income slightly above $30,000. As rates continue to increase for video service, many of our customers are being forced to make cuts. In past years, the term "cord cutting" pertained to the loss of landline voice subscribers. However, last year, this trend was more evident for video subscribers than for voice subscribers in our service area.

Some programming contracts require the MVPD to add channels that may be acquired or added through the course of the contract term. This creates additional work for the service provider to make the provisions necessary for the additional carriage, and eventually it results in additional costs for the viewer. While we have tried to negotiate for the exclusion of this type of language, we have not been successful in our efforts. Even more troubling is that the channel and its content can be changed mid-term, and we are not allowed to drop the channel. A recent example of this practice has led to numerous customer complaints and demands to have the "new" channel removed from our television line-up. Because of the programming contract language allowing this type of change, we are unable to drop the channel that is considered highly offensive to a large portion of our customer base.

As more content providers are allowing TV everywhere options, we have seen more regularly that this feature comes at a cost, regardless of whether the television subscriber uses, or even wants to use, the service. The fee is assessed against the entire subscriber base and has become another mechanism for programmers to raise the rates associated with their content. Observing our customer base, many of our younger people find online content from many sources, and they are happy with viewing video content in this manner. However, a larger percentage of our customers prefer to watch video programming in a more traditional manner, but with the additional fees for TV everywhere, traditional viewers are essentially paying extra for more online content.

I appreciate the opportunity to participate in this workshop on behalf of my company and for our customer base. I look forward to your questions through the remainder of our time today.